

# Swatch Group Ltd. - A Way To Success

Presenting to Nick Hayek, CEO Swatch Group Ltd.

## **Project Team**

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# Agenda

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**“Is the Apple watch killing the Swiss watch industry?”**

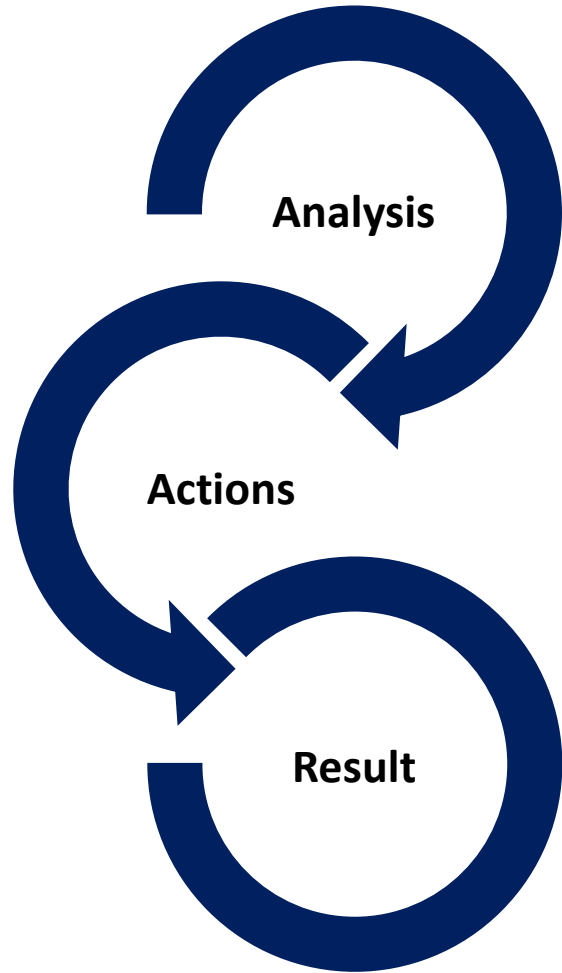
## Key challenges

**Compete with Apple**

**Turnaround in revenue and profit**

# Cooperation and M&A are way to success

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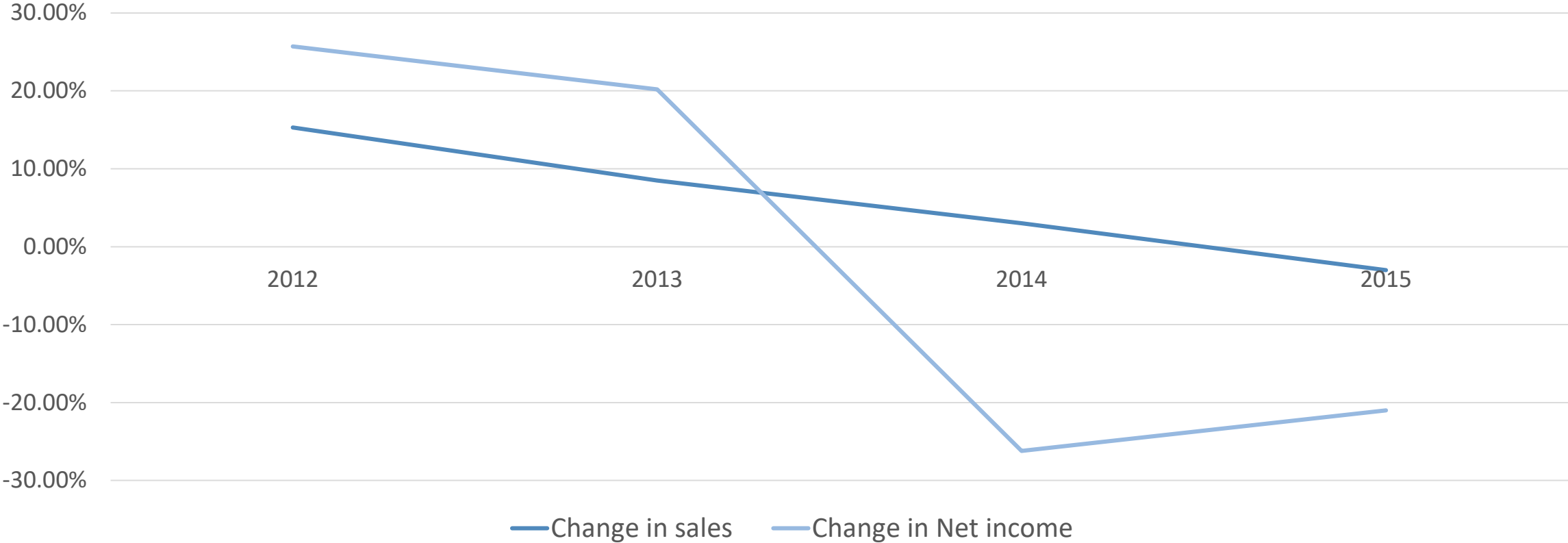
- Growing smart watch segment but still connected with uncertainty
- Consolidation in market for mechanical watches

- Cooperate with Garmin and Google for smartwatches in sports segment
- M&A strategy in market for mechanical watches

- Diversified revenue portfolio
- Back on revenue and profit growth track

# Current development shows need to react

### Development of Sales & Net Income



## External: Consolidation is great opportunity for growth through M&A

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- **Consolidation trend** in mechanical watch market → look for interesting targets to buy
- Watches are bought because of **emotionality** → focus on core values like timelessness and craftsmanship
- 85 % of customers of luxury watches do not see Apple Smartwatch as a **substitute** → low game breaking risk



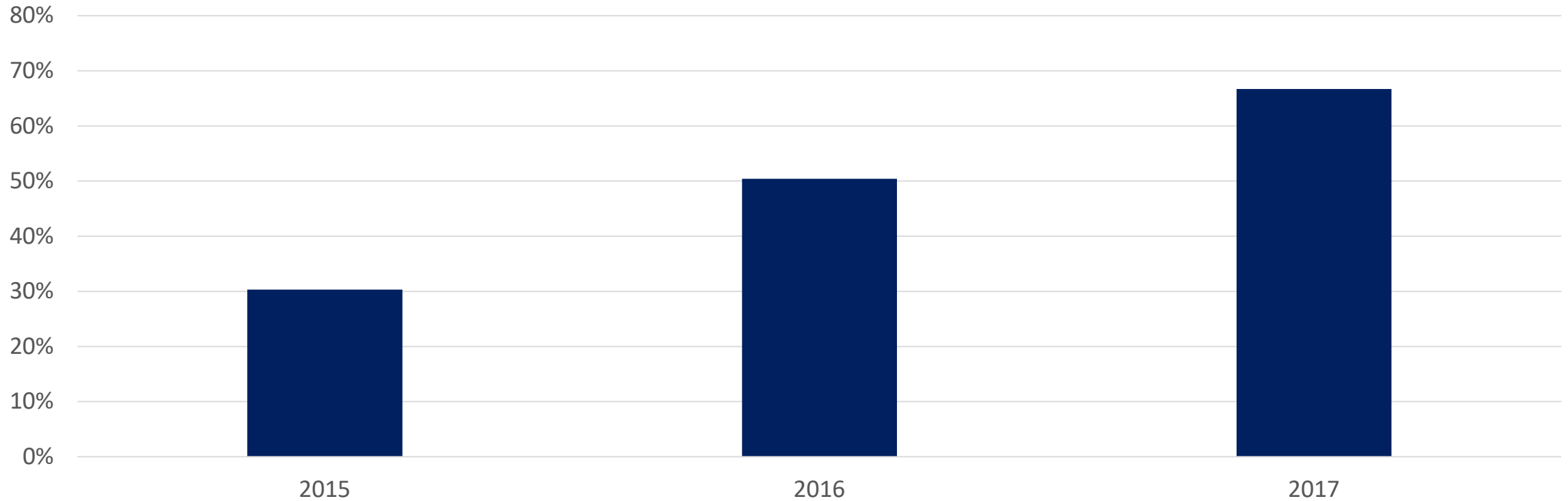
**Key success factor**

**Profit from market consolidation**

# Smart watch market is worth to be analyzed

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Predicted market growth  
for smartwatches & wearables



# Deep dive smart watches: Partners are necessary to succeed in the market

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- Market is in the **early adopter phase** → growing market with potential
- **Connectivity to smartphones** is needed → look for potential partners to get access
- Lot's of **uncertainty** due to growth rates and future development → do not solely focus on it

## Key success factor

**Get access to  
smartphone  
technologies**

**Focus on niche  
markets**



# Internal Strengths: Core values and expertise are key to success

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- **Great know how** (mechanical watches)
  - High quality
  - Long lasting
  - Efficient production
  - Innovativeness and patents
- Core values: **timelessness and craftsmanship**
- Great position in **luxury segment** (95 % of the profit are gained due to luxury watches)



## Key success factor

**Use expertise in high quality and efficient production**

**Focus on core values: timelessness and craftsmanship**

# Internal Fields for improvement: Look for partners to access smart watch market

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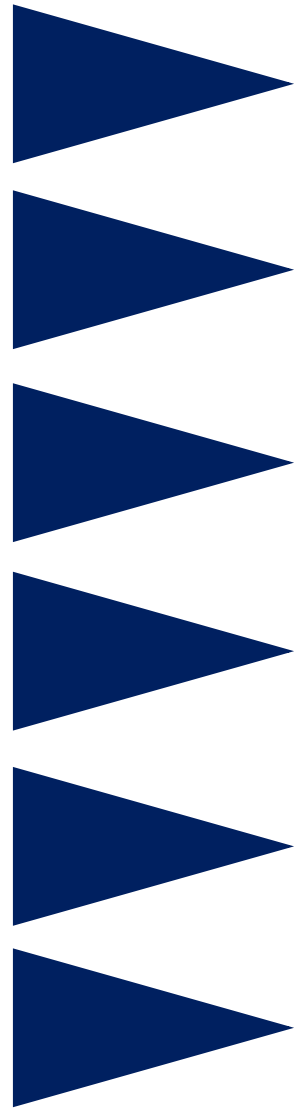
- limited **access to smartphone technologies** → look for potential partners
- **Currency dependency** (Swiss franc) → diversify portfolio
- Decreasing sales and decreasing net income (**stagnation**) → diversify portfolio



**Key success factor**

**Diversify your portfolio**

## Key takeaways from analysis on a glance



**Profit from market consolidation**

**Use expertise in high quality and efficient production**

**Diversify portfolio geographically**










**Get access to smartphone technologies**

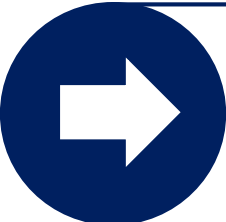
**Focus on niche markets**

**Focus on core values: timelessness and craftsmanship**



# Decision time (mechanical market): focus on what you can do best

	Focus on luxury market (M&A)	Focus on mass market (M&A)	Divestment
Strategic fit			
Fit to key success factors			
Feasibility			

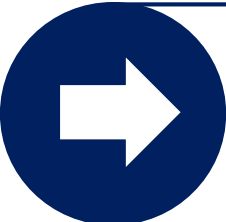


Core values and great know how in mechanical watches are deal breakers for divestment



# Decision time (smartwatch market): Collaborate to be successful

	Self-made	Collaboration	Exit
Strategic fit	Green circle	Green circle	Red circle
Fit to key success factors	Yellow circle	Green circle	Red circle
Feasibility	Red circle	Green circle	Green circle



Limited access to smartphone connectivity as deal breaker for self made strategy



# Strategy is based on two pillars

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## Future Strategy

### Smart watches

- Joint Venture with Garmin
- Focus on the sport segment

### Mechanical watches

- Market expansion through M&A
- Core Value awareness

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Implementation

# Sports market is a lucrative niche to enter smart watch market

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Get access to  
smartphone  
technologies

## Smart watches

- Through Joint Venture with Garmin: expansion of the expertise in the sports segment
  - No stuck in the middle: clear choice of the segment
  - Clear Unique Selling Proposition
  - Usable in every sports
- Focus on what Swatch stands for: robust, Swiss made & designed, for everyone and with a life long guaranty
- Long battery & changeable bracelets
- Cooperation with Google for connectivity with smartphones

# Deep Dive Skiing: A new sports device is born

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**Focus on niche markets**

## Smart watches

- As an example: the skiing sport segment
- Lara Gut (the famous skier of Switzerland) as the marketing ambassador worldwide
- Special bracelet edition, promotion video shows her and the functions of the watch while skiing
  - Possible same-time tracking as an improvement option for the trainer in training
  - Connection with mobile, laptop, health devices
- Marketing cooperation with Stoeckli Ski: the Swiss made Skis
  - New customer groups through cross selling potential



# Acquire brands that fit your key success factors

**Focus on core values: timelessness and craftsmanship**

**Diversify your portfolio**

## Mechanical watches

- M&A of watch companies who fit into our values and strategy (luxury segment)
  - Timelessness & craftsmanship: Junghanns & Nomos Glashuette
- External analysis proofed the importance of profit from market consolidation
- Swatch will diversify the portfolio geographically through M&A

# Use own expertise for PMI

## M&A process

### Targets

Junghanns and Nomos

Use expertise in high quality and efficient production

### Resources

- Use cashflow from operating activities (around 1 billion CHF per year)
- Exploit low interest rate environment and strong equity ratio for new debt if necessary

### Buying process

- Engage investment banks
- Try to fully own the companies and avoid partnerships

### Post Merger Integration

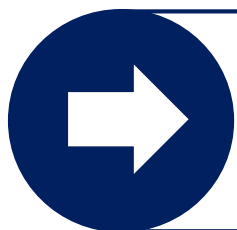
- Leave companies as they are & don't change brand image
- Try to hold existing Mgmt.
- **Reason:** Companies already fit to expertise/values of Swatch
- Try to achieve synergies in administration & procurement

# Smart Watch divisions generates new value for the Swatch Group

in million CHF	2016	2017	2018	2019	2020
<b>I. Cashflow from Investing Activities</b>					
Investments in R&D	-30.00	-10.00	-10.00	-10.00	-10.00
Investments in production facilities	-25.00	-5.00			
Investments in marketing activities	-25.00	-20.00	-15.00	-10.00	-10.00
<b>Total Cashflow from investing activities</b>	<b>-80.00</b>	<b>-35.00</b>	<b>-25.00</b>	<b>-20.00</b>	<b>-20.00</b>
<b>II. Cashflow from Operating Activities</b>					
Sales Quantity	600,000	1,200,000	2,000,000	2,700,000	3,240,000
Sales (Average price 250 CHF)	150.00	300.00	500.00	675.00	810.00
Operating Cashflow (Margin 20%)	30.00	60.00	100.00	135.00	162.00
<b>Free Cashflow (I+II)</b>	<b>-50.00</b>	<b>25.00</b>	<b>75.00</b>	<b>115.00</b>	<b>142.00</b>
Discounted Cashflow (WACC 8%)	-46.30	21.43	59.54	84.53	96.64
<b>Net Present Value</b>	<b>215.85</b>				

## Assumptions

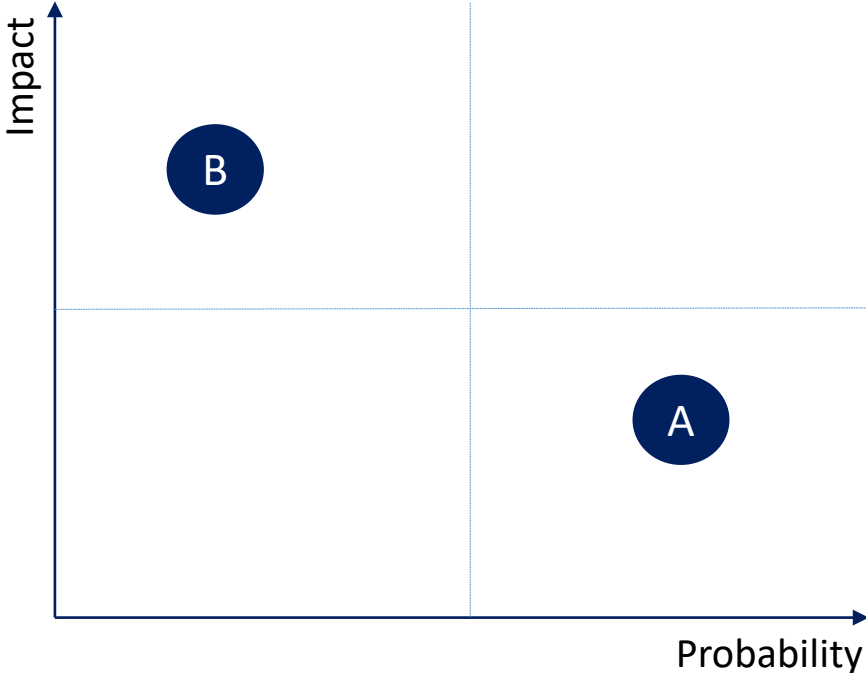
- **Average price of 250 CHF per watch**
- **Operating Cashflow margin of 20%**
- **WACC of 8%**



Smart watch division reaches a positive NPV of 215 million CHF after 5 years



# Potential risks are manageable



	Risk	Mitigation
A	Currency risks	Acquisition of non-swiss targets to diversify revenue
B	Garmin refuses to cooperate	Look for different partner like Fitbit



## Key Challenges

1. Compete with Apple
2. Turnaround in revenue and profit

Cooperate with Garmin and Google for smartwatches in sports segment

M&A strategy in market for mechanical watches

## Monday Morning Actions

- Set up project team
- Contact partners for cooperation and investment banks

Thank you for your attention